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EC 1992
Implications for World Food and Agricultural Trade

Washington, DC
November 19-20, 1990

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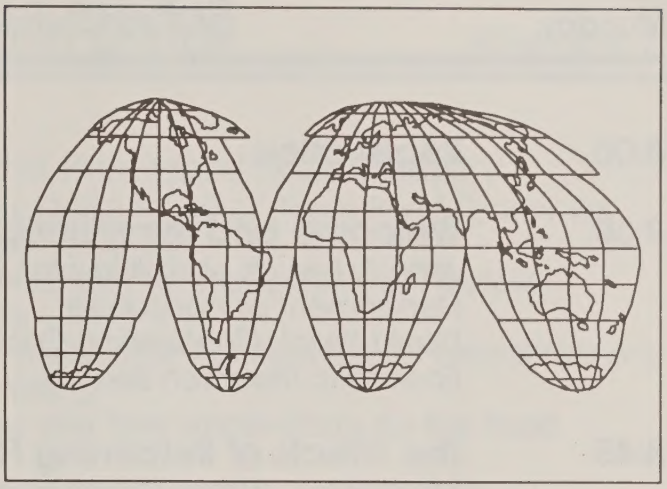
EC 1992
Implications for World Food and Agricultural Trade



Schedule at a Glance

Monday, November 19

8:00 Registration
8:30 Welcome
8:45 The Effects of Reforming Fiscal Barriers
9:45 Coffee
10:15 The Effects of Changing Technical Barriers
12:00 Luncheon
2:00 The Impacts of 1992 on the Processed Food Industry
3:45 Coffee
4:00 European Agriculture after 1992: Farm Policy
5:15 Adjourn

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Tuesday, November 20

8:00 Registration
8:30 European Agriculture after 1992: Structure
10:00 Coffee
10:30 Developing and Centrally Planned Economies after 1992
12:00 Luncheon
2:00 World Agricultural Trade after 1992: Developed Market Economies
3:30 Coffee
3:45 Overview and Conclusions
5:00 Adjourn

Note: All sessions except luncheons are in room B-1080 at the World Bank's Building J, southeast corner of 18th Street and Pennsylvania Avenue, NW. Luncheons are at the Mayflower Hotel, 1127 Connecticut Avenue, NW.

8:00 **Registration**

8:30 **Welcome and Introduction**
John E. Lee, Jr., Administrator, Economic Research Service, U.S. Department of Agriculture
David Kelch, Conference Chair, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture

8:45 **The Effects of Reforming Fiscal Barriers**
Moderator: Walter Gardiner, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture
The EC's Agrimonetary System: Evolution and Outlook After 1992
Timothy E. Josling, Stanford University, and Walter Gardiner
EC 1992: Completing the European Internal Market and Indirect Tax Harmonization in the Agriculture Sector
Henri Guyomard, Institute National de la Recherche Agronomique, Station d'Economie et Sociologie Rurales de Rennes, and Louis Mahè, ENSA, Department des Sciences Economiques et Sociales de Rennes

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9:45 **Coffee**

10:15 **The Effects of Changing Technical Barriers**
Moderator: Ken Roberts, Foreign Agricultural Service, U.S. Department of Agriculture
Harmonization of Plant and Animal Health and Food Safety Standards
David Kelch and Ruth Elleson, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture
EC 1992: Implications of the EC Single Market for Agricultural Input Industries
Carla Henry, Institut für Agrarpolitik, Marktforschung, und Wirtschaftssoziologie, Universität Bonn
EC 1992: The Effects of Changes in Animal Health Regulations on Trade Flows of Live Cattle
Kenneth W. Forsythe, Jr., and Maury E. Bredahl, Department of Agricultural Economics, University of Missouri-Columbia
Discussion

12:00 **Luncheon**
Ballroom, Mayflower Hotel
The Implications for U.S. Business Interests on the Completion of the Internal Market in the European Community
Charles Ludolph, Director of European Community Affairs, U.S. Department of Commerce

2:00 The Impacts of 1992 on the Processed Food Industry

Moderator: Dennis Henderson, Department of Agricultural Economics and Rural Sociology, Ohio State University

EC 1992: An Exploration of the Economic Implications of "Mutual Recognition" in the Food Sector

Alan Swinbank and Jim Burns, Department of Agricultural Economics and Management, University of Reading

EC 1992: Market Imperfections and Their Implications for the Food Section

Ian M. Sheldon, Department of Agricultural Economics and Rural Sociology, Ohio State University, and Harald von Witzke, Center for International Food and Agricultural Policy, Department of Agricultural and Applied Economics, University of Minnesota

EC 1992: Implications of a Single EC Market for the U.S. Food Manufacturing Sector

Charles R. Handy, Commodity Economics Division, Economic Research Service, U.S. Department of Agriculture, and Dennis Henderson, Department of Agricultural Economics and Rural Sociology, Ohio State University

Discussion

3:45 **Coffee**

4:00 **European Agriculture after 1992: Farm Policy**

Moderator: Ed Rossmiller, Resources for the Future

EC 1992: Environmental Considerations of the Single European Act

James A. Tobey and David E. Ervin, Resources and Technology Division, Economic Research Service, U.S. Department of Agriculture

Implications of the Single Market Program for National Production Quotas on Milk and Sugar

Steve Neff and Dale Leuck, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture, and Timothy E. Josling, Stanford University

5:15 **Adjourn**

8:00 **Registration**

8:30 **European Agriculture after 1992: Structure**

Moderator: Jacques Von Thron, EC Agricultural Attache in Washington

Abolishing Green Rates: The Effects on Cereals, Sugar, and Oilseeds in West Germany

Don Larsen, Brent Borrell, Merlinda Ingco, and Jonathon Coleman, International Trade Division, International Economics Department, World Bank

The Impacts of the Integration of East Germany on the CAP: First Calculations and Indications

Wilhelm Henrichsmeyer, Institut für Agrarpolitik, Marktforschung, und Wirtschaftssoziologie, Universität Bonn

Crosscountry Comparisons of Technical Progress and Efficiency Gains in EC Agriculture

Eldon Ball, Hyunok Lee, and Agapi Somwaru, Resources and Technology Division, Economic Research Service, U.S. Department of Agriculture

Discussion

10:00 **Coffee**

10:30 **Developing and Centrally Planned Economies after 1992**

Moderator: Ron Duncan, World Bank

Trade Implications of EC 1992 for a Reforming Eastern Europe and Soviet Union

Robert B. Koopman and Nancy J. Cochrane, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture

Implications of EC 1992 for the Developing Countries' Grain Trade

Merlinda Ingco and Donald Mitchell, International Trade Division, International Economics Department, World Bank

EC Trade with African, Caribbean, and Pacific (ACP) and Other Developing Countries

Liana Neff and Terri Raney, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture

Discussion

12:00 **Luncheon**

State Room, Mayflower Hotel

The European Community in the 1990's

Ambassador Andreas van Agt, Head of the EC Commission's Delegation to the United States

2:00 **World Agricultural Trade after 1992: Developed Market Economies**

Moderator: William Coyle, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture

Overview of EC Trade

Terri Raney and Alan Webb, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture

U.S. Trade Implications

Howard McDowell, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture

EC Agricultural Trade with the Developed Pacific Rim: Implications of EC 1992

Carol Goodloe, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture

1992 and the EC: Turning Point for EFTA?

Mary Lisa Madell, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture

3:30 **Coffee**

3:45 **Overview and Conclusions**

Moderator: David R. Kelch

Panel: Timothy E. Josling, Wilhelm Henrichsmeyer, Louis Mahè, Michel Petit (Agriculture and Rural Development Department, World Bank), and Alan Swinbank

5:00 **Adjourn**

The EC's Agrimonetary System: Evolution and Outlook After 1992. Timothy E. Josling, Food Research Institute, Stanford University, and Walter Gardiner, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture.

The EC's agrimonetary system poses a challenge for the Single Market Program. Price levels for the major farm products diverge considerably among member states as a result of the use of artificial "green" rates of exchange. These price differences are supported by taxes and subsidies (MCA's) on agricultural trade within the Community. In the absence of border controls such a system would be unworkable. Removal of the MCA system would lead to price decreases in some countries, particularly Germany, the Netherlands, and Belgium, and price increases in others, in particular Greece and the United Kingdom. Any price decreases will be strongly opposed by farm groups, in particular if combined with pressures from the Uruguay Round of GATT negotiations. On the other hand, raising prices to compensate farmers for the change in the system may not be possible. To do so would risk breaching the current budget limits and contradict even a modest GATT agreement. The members will more likely find a way to maintain different price levels in the various EC countries by means other than border taxes and subsidies. If monetary union is achieved, such payments could be phased out over time. In the absence of monetary union, exchange rate movements may require continued use of some form of agrimonetary policy.

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EC 1992: Completing the European Internal Market and Indirect Tax Harmonization in the Agriculture Sector. Henri Guyomard, Institut National de la Recherche Agronomique, Station d'Economie et Sociologie Rurales de Rennes, and Louis P. Mahè, E.N.S.A., Department des Sciences Economiques et Sociales de Rennes.

A change in the indirect tax structure is a normal item in the completion of the European internal market. Because of the wide disparities in the rates and structure of value-added tax (VAT) and excise duties in the agricultural sectors of member countries of the EC, the implications of indirect taxation harmonization will probably be different among member states. This exercise is complicated because VAT rates vary among products and countries and because two systems of VAT exist. In the first system, VAT is theoretically neutral and does not constitute a fiscal burden upon farmers because they register as VAT payers and claim rebates on their VAT expenditures. In the second option, farmers claim compensation by means of a flat-rate addition to output prices. This second system may correspond to a tax of a subsidy, depending on the flat-rate compensation chosen by each country with respect to the average rate applied on inputs. With respect to the different rates used in the member states, the European Commission has proposed to introduce a two-tier VAT system: a standard rate between 14 percent and 20 percent and a reduced rate.

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Harmonization of Plant and Animal Health and Food Safety Standards. David R. Kelch and Ruth Elleson, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture.

The elimination of frontier controls requires the harmonization of sanitary and phytosanitary and food safety rules among the 12 EC countries. The theoretical consequences of a successful EC harmonization program should be positive for both intra-EC and extra-EC trade because only 1 set of standards would have to be met instead of 12. However, significant trade creation and trade diversion could occur and will depend to some extent on how strict the EC-wide standards will be. Intra-EC and extra-EC trade conflicts over market access seem inevitable. These conflicts could politically overshadow the economic benefits of the harmonization process. The outcome of the GATT negotiations on agriculture could be crucial in determining the degree of access to the EC's market after 1992 when the harmonizing process is complete.

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1992: Implications of the EC Single Market for Agricultural Input Industries. Carla Henry, Institut für Agrarpolitik, Marktforschung, und Wirtschaftssoziologie, Universität Bonn.

The EC agricultural input industries--feed, energy, fertilizer, plant protection, and agricultural machinery--will be affected by the current single market proposals, but the influence of those proposals may well be overshadowed by other market forces. Almost all of the industries will probably reach higher levels of concentration in the medium term as a result of both existing market trends and single market effects. Price effects will be mixed. The time frame needed to achieve the single market objectives will also stretch well into the next decade for most of the industries considered.

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EC 1992: The Effects of Changes in Animal Health Regulations on Trade Flows of Live Cattle. Kenneth W. Forsythe, Jr., and Maury E. Bredahl, Department of Agricultural Economics, University of Missouri-Columbia.

The 1992 unification of the European Community (EC) may allow freer internal EC trade but restrict third-country imports. The EC's foot-and mouth disease (FMD) program is a potential vehicle for these restrictions. FMD legislation will probably result in a net increase in internal EC trade of live cattle and net decrease in third-country imports of live cattle.

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EC 1992: An Exploration of the Economic Implications of 'Mutual Recognition' in the Food Sector. By Alan Swinbank and Jim Burns, Department of Agricultural Economics and Management, University of Reading.

The food manufacturing industry in Europe has begun a major structural change which will lead to the emergence of large-scale enterprises that will probably dominate the processed, market-oriented sector. This outcome may be the result of real gains from the EC 1992 single-market goals, for example in supply or marketing of raw materials. The psychological impetus to cross-border acquisition is not unimportant. The EC Commission's approach to completing the internal market through mutual recognition will probably not break down all trade barriers. The EC Commission will encourage intra-Community trade, but mutual recognition has a differential effect upon EC-based firms. Thus, the location of investment in the food and drink industries will still partly depend on national legislation. Consumer groups fear a proliferation of apparently similar, but in fact dissimilar, goods and debasement of product quality. These problems, and those of enforcement, will lead to more EC legislation, not less.

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EC 1992: Market Imperfections and Their Implications for the Food Sector. Ian M. Sheldon, Department of Agricultural Economics and Rural Sociology, Ohio State University, and Harald von Witzke, Center for International Food and Agricultural Policy, Department of Agricultural and Applied Economics, University of Minnesota.

The food industry will probably benefit only slightly from the 1992 integration of the national markets within the European Community. The critical element in the integration will be the direction of change in monetary compensatory amounts and agricultural support prices. The effects of integration will probably be highly sensitive to the importance of scale economies and the nature of competition between firms. The effect of increasing demand for food standards and safety will also probably be important.

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EC 1992: Implications of a Single EC Market for the U.S. Food Manufacturing Sector.
Charles R. Handy, Commodity Economics Division, Economic Research Service, U.S. Department of Agriculture, and Dennis Henderson, Department of Agricultural Economics and Rural Sociology, Ohio State University.

Food manufacturing industries in both the EC and the United States are similarly composed of two groups of firms: a small number of large firms with dominant position in multiple product/geographic markets and a larger number of smaller firms, often specialty manufacturers, operating primarily in narrow product or geographic markets. Expected EC policy changes will probably most benefit food manufacturing firms that serve the entire Community and most hinder firms with local, regional, and national markets. Thus, the scope and competitiveness of leading EC firms will broaden, increasing the flow of capital into and products out of the EC and moderating the dominant position of U.S. firms in the global food manufacturing sector.

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EC 1992: Environmental Considerations of the Single European Act. James A. Tobey and David E. Ervin, Resources and Technology Division, Economic Research Service, U.S. Department of Agriculture.

Environmental considerations have become an increasingly important component of EC agricultural policy discussions. They have figured prominently in the 1992 discussions as the Single European Act pledged coordinated action on the environment. Concerns about food safety, water quality, nature conservation, and landscape amenities are driving the examination. The most straightforward environmental effect of the EC 1992 program involves the harmonization of food safety and plant and animal health regulations to reduce trade impediments. However, the act may also reduce nations' abilities to set their own environmental quality standards. Less obvious are the potential effects of EC 1992 on the level of agriculture support, output prices, and market structure. These effects can affect the scale and intensity, enterprise mix, location, and technology of agricultural production--all forces that may positively or negatively affect the environment depending on the pattern of changed inputs and outputs on environmental resources.

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Implications of the Single Market Program for National Production Quotas on Milk and Sugar. Steve Neff and Dale Leuck, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture, and Tim Josling, Stanford University.

The EC limits the costs of its dairy and sugar support programs by imposing production quotas rather than reducing prices. Although the EC could technically retain the national production quotas they violate the concept of a free internal market. Current prospects do not seem strong for significant change in the milk and sugar quotas, but some recent forces could bring change. For example, the EC is moving toward greater competition and a more efficient agricultural economy. If current GATT negotiations lead to reduced subsidies, the EC would need to reduce import protection and export subsidies. Such change would encourage abandoning quotas to improve international competitiveness. Competition from substitute products, such as lower fat spreads and low-calorie sweeteners, may press the EC to remove quotas and lower price supports to increase efficiency and maintain consumption. EC 1992 itself may be the strongest force for loosening the quotas, because quotas inhibit internal competition. Greater efficiency would reduce production costs and might lower consumer costs and export subsidy costs.

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Abolishing Green Rates: The Effects on Cereals, Sugar, and Oilseeds in West Germany.
Don Larsen, B. Borrell, Merlinda Ingco, and J. Coleman, International Trade Division, International Economics Department, World Bank.

A necessary condition for a unified agricultural market in the EC is the removal of policy tools such as green rates, MCA's, and MDA's, which price otherwise homogeneous goods differently based on country of origin. Because of a proliferation of support methods, including variable levies, quotas, and indirect crushing subsidies, and the distortions generated by multiple country and crop-specific green rates, implementing a unified EC market will result in both relative and absolute price changes within and among member countries. The authors illustrate the effects of moving to an EC-average level of price protection with the example of West German agriculture.

Contact: Don Larsen, International Trade Division, International Economics Department, World Bank, Washington, DC 20433, telephone 202-477-1234, fax 202-477-6391

The Impacts of the Integration of East Germany on the CAP: First Calculations and Indications. Wilhelm Henrichsmeyer, Institut für Agrarpolitik, Marktforschung, und Wirtschaftssoziologie, Universität Bonn.

The five East German Lander bring to the newly unified Germany some of the largest farms in Europe. Much of that agricultural sector, however, lacks current technology and is populated by too many individuals who do not have the skills, financial means, or inclination to be self-employed entrepreneurs. The future composition of the East German farm sector will probably include family farms and different types of corporations and cooperatives that will be the largest farms in the western world. The immediate starting point for restructuring that sector will include reducing the labor force by retraining and early retirement programs, modernizing technology by offering investment subsidies, improving product quality to become competitive in domestic and foreign food markets, and retiring marginal agricultural land through set-aside programs.

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Crosscountry Comparisons of Technical Progress and Efficiency Gains in EC Agriculture. Eldon Ball, Hyunok Lee, and Agapi Somwaru, Resources and Technology Division, Economic Research Service, U.S. Department of Agriculture.

Not all countries are identical in their productivity performance. Their relative productivity efficiency differs. Productivity growth of the most efficient, or "best practice," countries requires new technical innovations. Those countries not performing at full efficiency, however, can potentially improve productivity by increasing efficiency with existing technology. The emerging EC 1992 will probably lead to increased flows of resources and technologies among member countries. Thus, the new economic environment will help countries improve efficiency levels. Evaluating a country's relative performance provides information on the potential efficiency gain of that country. Identifying the "best practice" technology, however, provides information on how to reallocate resources to capture those efficiency gains.

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Trade Implications of EC 1992 for a Reforming Eastern Europe and Soviet Union. Robert B. Koopman and Nancy J. Cochrane, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture.

Economic reforms in Eastern Europe and the Soviet Union have significant implications for world agricultural markets. Successful reform in Eastern Europe may increase pressures for increased agricultural exports. The effects of reforms in the Soviet Union are less certain; the Soviet Union may increase imports or become a net exporter. The future of EC agricultural trade barriers may significantly affect the success of agricultural reform in East Europe and the Soviet Union. Before, and to some extent after, World War II, the EC countries were important markets for East European and Soviet agricultural products. Should EC trade barriers lessen, traditional trading patterns in the region might return.

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Implications of EC 1992 for the Developing Countries' Grain Trade. Merlinda Ingco and Donald Mitchell, International Trade Division, International Economics Department, World Bank.

Most developing countries are net importers of grains and would generally be hurt by higher grain prices. However, certain developing countries are net grain exporters and would benefit from higher revenues from grain exports if world prices rise.

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EC Trade with African, Caribbean, and Pacific (ACP) and Other Developing Countries.
Liana Neff and Terri Raney, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture.

Trade between the EC and the ACP countries will be affected by the EC's creation of a single internal market. Most ACP commodities enter the EC on a preferential basis, many duty free and under nonbinding quotas. After 1992, demand for these commodities may increase slightly due to GDP growth and marketing efficiency gains in the EC, but ACP countries will not necessarily benefit. Some ACP commodities are traded under a bilateral quota system, with individual EC member countries reserving their markets and guaranteeing price premiums for specific ACP suppliers. With the elimination of internal borders, EC members will be unable to enforce bilateral quota regimes for bananas, sugar, and other commodities. The EC has not yet delineated how it will protect the ACP suppliers who are in danger of losing their preferential access to EC member countries.

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Overview of EC Trade. Terri Raney and Alan Webb, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture.

The European Community's creation of a single internal market after 1992 may affect world trade for a number of agricultural commodities. The elimination of physical borders will probably stimulate growth in gross domestic product and improve marketing efficiency which, in turn, should stimulate consumer demand. Monetary union may translate into lower producer prices in some EC countries with attendant reductions in supply. The EC's agricultural trade flows will be influenced by several political and economic events other than the 1992 program, including German reunification, economic restructuring in Central Europe and the Soviet Union, and the outcome of the current GATT negotiations.

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U.S. Trade Implications. By Howard McDowell, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture.

The move toward a single European market by the end of 1992 provides additional pressures to reform the Common Agricultural Policy and reduce agricultural trade barriers within the European Community. Policy analysts predict that EC prices for wheat, corn, dairy, and beef should fall as a result, reducing production growth rates. Income should also grow as a result of the macroeconomic effects of the completed Internal Market, increasing food consumption. Increased prices on world commodity markets should rise because of increased excess demand and reduced excess supplies in the EC. U.S. commodity exports are expected to increase marginally. Possible average price increases through the year 2000 range between 0.5 and 1.5 percent for corn and 1.0 and 2.8 percent for wheat.

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EC Agricultural Trade with the Developed Pacific Rim: Implications of EC 1992. Carol Goodloe, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture.

The seven Pacific Rim countries with developed economies--Japan, South Korea, Taiwan, Hong Kong, Canada, Australia, and New Zealand--take about 14 percent of the EC's agricultural exports and provide about 9 percent of the EC's agricultural imports. The three agricultural exporters--Canada, Australia, and New Zealand--have lost some of their share in the European market and have faced increased EC competition in world markets. If the 1992 process lowers internal EC prices and decreases exports of grains and livestock products, Canada, Australia, and New Zealand might regain some of their competitive export position in these traditional products. The United States is the dominant agricultural supplier of both total and high-value products (HVP) to the lucrative East Asian market, but EC exports of both bulk and high-value products grew faster in the 1980's. If EC harmonization leads to lower commodity prices and a more efficient food processing sector, the EC may increase its share of the fast-growing East Asian HVP market. The three agricultural exporters provide only 11 percent of East Asia's HVP imports and could face increased EC competition in HVP's, both in East Asia and elsewhere.

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1992 and the EC: Turning Point for EFTA? Mary Lisa Madell, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture.

The EC's program to complete its internal market by 1992 has forced the countries of the European Free Trade Association (EFTA) to reexamine their relationships with the EC. EFTA's policy options range from the formation of a European Economic Space to full EC membership. The highly protective agricultural policies of the EFTA countries could, however, stand in the way of closer cooperation. The EFTA countries and the EC signed a series of bilateral Free Trade Agreements in 1973, but those agreements exclude agriculture. Agricultural policy differences between the EFTA countries and the EC will play a role in the process of European integration.

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